

## Message Text

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PAGE 01 STATE 061586  
ORIGIN TRSE-00

INFO OCT-01 ARA-06 IO-13 ISO-00 FEA-01 AGRE-00 CEA-01  
CIAE-00 COME-00 DODE-00 EB-08 FRB-03 H-01 INR-07  
INT-05 L-03 LAB-04 NSAE-00 NSC-05 PA-01 AID-05  
SS-15 STR-04 ITC-01 USIA-06 PRS-01 SP-02 OMB-01  
/094 R

DRAFTED BY TREASURY - E BARBER  
APPROVED BY EB/OT/GCP - SAHMAD  
ARA/ECA - D VAN TREECK  
ARA/ECP - RTAYLOR  
COMMERCE - N MORGAN  
STR - J GREENWALD  
AGRICULTURE - J BENSON  
LABOR - H FIEKOWSKY  
TREASURY - WBARREDA  
TREASURY - C DALLARA  
EB/OMA-CCUNDIFF  
USED/IMF-CLOHMANN  
-----191756Z 011586 /42  
R 190418Z MAR 77  
FM SECSTATE WASHDC  
TO AMEMBASSY MONTEVIDEO  
USMISSION GENEVA

C O N F I D E N T I A L STATE 061586

E.O. 11652: GDS

TAGS: ETRD

SUBJECT: URUGUAYAN IMPORT SURCHARGE AND IMF STANDBY

SUMMARY: AN IMF STAFF REVIEW OF CURRENT STANDBY AGREE-  
MENT WITH URUGUAY IMPLICITLY APPROVED AN INCREASED  
IMPORT SURCHARGE WHICH APPEARS TO VIOLATE URUGUAY'S  
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GATT OBLIGATIONS. US DIRECTOR STRESSED THAT FUND  
NOT APPEAR TO SANCTION POSSIBLE VIOLATIONS OF GATT  
OBLIGATIONS. REVIEW'S TREATMENT OF THE HIGHER  
SURCHARGE REFLECTS CONTINUING NEED FOR IMF-GATT  
COORDINATION WITH RESPECT TO TRADE RESTRICTIONS  
IMPOSED FOR BOP REASONS. IN RESPONSE TO INTERVENTIONS  
BY US EXECUTIVE DIRBCTOR OF IMF, URUGUAY PROVIDED

IMF BOARD A CLARIFICATION OF ITS CURRENT TRADE POLICY TO SUPPORT CONTENTION THAT OVERALL THRUST IS TOWARD LIBERALIZATION. IMF STAFF HAS AGREED TO SUPPLEMENT ITS REPORT ON STANDBY AGREEMENT TO REFLECT THIS CLARIFICATION. IN ADDITION, STAFF STATED IN BOARD MEETING THAT ITS REVIEW OF STANDBY WILL NOT PREJUDICE IMF REP'S CHOICE OF POSITION IN ANY FUTURE GATT CONSULTATIONS ON THE SURCHARGE. END SUMMARY.

1. LAST SUMMER'S FIRST CREDIT TRANCHE STANDBY AGREEMENT BETWEEN IMF AND URUGUAY CALLED FOR A REVIEW OF URUGUAY'S ECONOMIC PROGRAM BY JANUARY, 1977, AT

WHICH TIME ANY NECESSARY ADJUSTMENTS COULD BE MADE.

2. IMF STAFF REPORT PREPARED IN CONJUNCTION WITH JANUARY REVIEW (IMF DOCUMENT EBS/77/9) INDICATED THAT GOU'S BUDGET INCLUDES AS A REVENUE MEASURE AN INCREASE IN THE SPECIAL IMPORT SURCHARGE FROM 7 TO 10 PERCENT AND ITS EXTENSION TO ALL IMPORTS. THE INCREASE APPEARED TO VIOLATE URUGUAY'S OFT-EXTENDED ARTICLE XXV GATT WAIVER, WHICH AUTHORIZES THE SURCHARGE FOR BALANCE OF PAYMENTS REASONS ONLY AND SPECIFICALLY PROHIBITS ITS INTENSIFICATION WITHOUT CONCURRENCE OF GATT CONTRACTING PARTIES. WASHINGTON AGENCIES WERE CONCERNED THAT IMPLICIT FUND APPROVAL OF INCREASED SURCHARGE MIGHT SEEM TO ENDORSE THIS VIOLATION AND/OR MIGHT HAVE EFFECT OF PREJUDGING THE POSITION WHICH FUND'S REPRESENTATIVE COULD TAKE IN ANY FUTURE GATT CONFIDENTIAL

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CONSIDERATION OF THE SURCHARGE.

3. BASED ON GUIDANCE PROVIDED INFORMALLY BY REPRESENTATIVES OF AGENCIES WITH TRADE RESPONSIBILITIES, AND BY NATIONAL ADVISORY COUNCIL STAFF COMMITTEE, US EXECUTIVE DIRECTOR PURSUED ISSUE WITH FUND STAFF, WITH IMF EXECUTIVE DIRECTOR FOR URUGUAY, AND IN IMF BOARD MEETING FEBRUARY 18. HE APPLAUDED RECENT URUGUAYAN MOVES TOWARD A MORE LIBERAL TRADE REGIME BUT REGRETTED INCREASE IN SURCHARGE. HE STRESSED OUR CONCERN THAT FUND NOT APPEAR TO SANCTION POSSIBLE VIOLATION OF GATT OBLIGATIONS. HE ASKED THAT STAFF REPORT BE AMENDED OR SUPPLEMENTED TO ELIMINATE ANY SUGGESTION OF SUCH SANCTION AND TO REMOVE ANY POSSIBILITY OF PREJUDICE TO POSITION OF FUND REPRESENTATIVE IN FUTURE GATT CONSULTATIONS ON THIS SUBJECT. OTHER EXECUTIVE DIRECTORS MANIFESTED SOME SUPPORT FOR US POSITION.

4. IN REPLY, EXECUTIVE DIRECTOR FOR URUGUAY (SIMONS OF ARGENTINA) ARGUED THAT INCREASED SURCHARGE IS PART OF A LARGER REORGANIZATION AND SIMPLIFICATION OF GOU IMPORT REGIME WHICH HAS A NET LIBERALIZING EFFECT. URUGUAY SUBSEQUENTLY SUBMITTED A STATEMENT TO BOARD IN SUPPORT OF THIS CONTENTION. WASHINGTON AGENCIES HAVE NOT SEEN THIS STATEMENT, BUT ARE INFORMED THAT IT SHOWS A LOWERING OF THE HIGHER SURCHARGE AND REDUCTION IN THE TOTAL NUMBER OF DIFFERENT SURCHARGES APPLICABLE TO IMPORTS.

5. NEVERTHELESS WE NOTE THAT URUGUAY'S CURRENT BOP SURPLUS, GOU'S CHARACTERIZATION OF SURCHARGE AS A

REVENUE MEASURE, AND EXTENSION OF THE HIGHER SPECIAL SURCHARGE TO A WIDER RANGE OF IMPORTS, ALL MAKE THE CONTRIBUTION OF THE HIGHER SURCHARGE TO THIS  
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LIBERALIZATION EFFORT UNCLEAR.

6. IMF STAFF CONCURRED IN SIMONS' CHARACTERIZATION OF URUGUAY'S OVERALL TRADE POLICY, AND TOLD US EXECUTIVE DIRECTOR THAT THEY SEE THE HIGHER SPECIAL SURCHARGE AS A NECESSARY IF TEMPORARY EVIL. STAFF AGREED TO ISSUE SUPPLEMENT TO ITS REVIEW OF STANDBY AGREEMENT DESCRIBING GOU'S LIBERALIZATION EFFORTS IN GREATER DETAIL. STAFF DID NOT REPLY SPECIFICALLY TO US EXECUTIVE DIRECTOR CONCERN ABOUT IMF SANCTION OF POSSIBLE GATT VIOLATIONS. HOWEVER, STAFF SPOKESMAN DID STATE IN BOARD MEETING THAT NEITHER THE POSITION TAKEN BY STAFF IN ITS REVIEW PAPER, NOT SUBSEQUENT BOARD APPROVAL OF URUGUAY'S ECONOMIC PROGRAM FOR REMAINING PERIOD OF STANDBY ARRANGEMENT, WOULD PREJUDICE THE CHOICE OF POSITIONS A FUND REPRESENTATIVE MIGHT TAKE AT FUTURE GATT CONSULTATIONS ON THIS ISSUE.

7. COMMENT: THE ATTENTION GIVEN URUGUAY'S SURCHARGE INTENSIFICATION REPRESENTS A FIRST STEP IN WHAT WILL BE A CONTINUING EFFORT TO INCREASE IMF AWARENESS OF AND ATTENTION TO THE GATT IMPLICATIONS OF FUND DECISIONS ON TRADE POLICY QUESTIONS. WE ALSO WILL CONTINUE OUR PARALLEL EFFORTS IN GATT CONSULTATIVE GROUP OF 18 AND IN MTN FRAMEWORK GROUP TO TIGHTEN INTERNATIONAL DISCIPLINE OVER TRADE MEASURES TAKEN FOR BOP REASONS. END COMMENT.

8. US INTEREST IN THIS SUBJECT REFLECTS OUR GENERAL AIM OF REDUCING OR ELIMINATING TRADE-DISTORTING MEASURES WORLDWIDE. IT IS NOT CONFINED TO URUGUAY.

MAKING THIS POINT, IF NECESSARY, MISSION AND EMBASSY  
ARE REQUESTED TO MAKE INFORMAL LOW-KEY INQUIRIES  
RE GOU INTENTIONS TO NOTIFY INTENSIFIED SURCHARGE  
IN GATT.

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9. MONTEVIDEO 998 RECEIVED SUBSEQUENT TO PREPARATION  
OF ABOVE.  
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ORIGIN EB-02

INFO OCT-01 IO-02 ISO-00 /005 R

66011  
DRAFTED BY EB/OT/GCP:SRLYNN  
APPROVED BY EB/OT/GCP:SAHMAD  
-----262018Z 128281 /45

R 260019Z MAR 77  
FM SECSTATE WASHDC  
TO USDEL MTN GENEVA

C O N F I D E N T I A L STATE 061586

FOL RPT STATE 061586 ACTION MONTEVIDEO USMISSION GENEVA  
DATED 19 MAR 77

QUOTE: C O N F I D E N T I A L STATE 061586

E.O. 11652: GDS

TAGS: ETRD

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IMPORT SURCHARGE WHICH APPEARS TO VIOLATE URUGUAY'S

GATT OBLIGATIONS. US DIRECTOR STRESSED THAT FUND NOT APPEAR TO SANCTION POSSIBLE VIOLATIONS OF GATT OBLIGATIONS. REVIEW'S TREATMENT OF THE HIGHER SURCHARGE REFLECTS CONTINUING NEED FOR IMF-GATT COORDINATION WITH RESPECT TO TRADE RESTRICTIONS IMPOSED FOR BOP REASONS. IN RESPONSE TO INTERVENTIONS BY US EXECUTIVE DIRECTOR OF IMF, URUGUAY PROVIDED IMF BOARD A CLARIFICATION OF ITS CURRENT TRADE POLICY TO SUPPORT CONTENTION THAT OVERALL THRUST IS TOWARD

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LIBERALIZATION. IMF STAFF HAS AGREED TO SUPPLEMENT ITS REPORT ON STANDBY AGREEMENT TO REFLECT THIS CLARIFICATION. IN ADDITION, STAFF STATED IN BOARD MEETING THAT ITS REVIEW OF STANDBY WILL NOT PREJUDICE IMF REP'S CHOICE OF POSITION IN ANY FUTURE GATT CONSULTATIONS ON THE SURCHARGE. END SUMMARY.

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3. BASED ON GUIDANCE PROVIDED INFORMALLY BY REPRESENTATIVES OF AGENCIES WITH TRADE RESPONSIBILITIES, AND BY NATIONAL ADVISORY COUNCIL STAFF COMMITTEE, US EXECUTIVE DIRECTOR PURSUED ISSUE WITH FUND STAFF, WITH IMF EXECUTIVE DIRECTOR FOR URUGUAY, AND IN IMF BOARD MEETING FEBRUARY 18. HE APPLAUDED RECENT URUGUAYAN MOVES TOWARD A MORE LIBERAL TRADE REGIME

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TO US EXECUTIVE DIRECTOR CONCERN ABOUT IMF SANCTION OF POSSIBLE GATT VIOLATIONS. HOWEVER, STAFF SPOKESMAN DID STATE IN BOARD MEETING THAT NEITHER THE POSITION TAKEN BY STAFF IN ITS REVIEW PAPER, NOT SUBSEQUENT BOARD APPROVAL OF URUGUAY'S ECONOMIC PROGRAM FOR REMAINING PERIOD OF STANDBY ARRANGEMENT, WOULD PREJUDICE THE CHOICE OF POSITIONS A FUND REPRESENTATIVE MIGHT TAKE AT FUTURE GATT CONSULTATIONS ON THIS ISSUE.

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9. MONTEVIDEO 998 RECEIVED SUBSEQUENT TO PREPARATION OF ABOVE. UNQUOTE CHRISTOPHER

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## Message Attributes

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Declassified/Released  
US Department of State  
EO Systematic Review  
22 May 2009  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009